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PAGE 001  
TOT: 030608Z AUG 89

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SUBJECT: MIDDLE EAST BRIEF [REDACTED] FOR 3 AUGUST 1989.

FROM: DDI/O/CPAS. [REDACTED]

CONTENTS

1. LEBANON: SITUATION REPORT (C NF)
2. INTERNATIONAL: CRUDE OIL PRICES SLIDING (C NF)

4. IN BRIEF

1. LEBANON: SITUATION REPORT (C NF)

HOSTAGE CRISIS

THE HOSTAGE CRISIS REMAINS TENSE WITH HIZBALLAH AND ISRAEL TRADING THREATS, BUT EACH APPEARS TO BE WAITING FOR THE OTHER TO MOVE FIRST.

SENIOR HIZBALLAH CLERIC ABBAS MUSAWI YESTERDAY PUBLICLY WARNED THAT, IF THE US CARRIED OUT MILITARY ACTION IN LEBANON, X'HIZBALLAH'S REVENGE WILL BE VIOLENT' AND THAT 'HIZBALLAH'S HANDS CAN REACH FAR.' HE ALSO CONTINUED TO PRESS FOR SHAYKH ABDUL KARIM UBAYD'S RELEASE, IMPLICITLY THREATENING THE ISRAELI SOLDIERS TAKEN CAPTIVE IN 1986. MUSAWI DID NOT, HOWEVER, REITERATE THE THREAT

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388

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PAGE 002  
TOT: 030608Z AUG 89

TO KILL ANOTHER US HOSTAGE TODAY IF UBAYD IS NOT RELEASED.

ISRAELI LEADERS APPEAR ACUTELY WORRIED THAT UBAYD'S KIDNAPPING HAS BACKFIRED AND IS COSTING THEM CONSIDERABLY IN WASHINGTON.

NEVERTHELESS, TEL AVIV IS PUTTING CONCERN FOR ITS OWN HOSTAGES FIRST AND WILL CARRY OUT ITS THREAT TO RETALIATE IF THEY ARE HARMED, REGARDLESS OF THE RISK THAT WOULD POSE TO THE REMAINING US HOSTAGES. HIZBALLAH, FOR ITS PART, WOULD BE UNLIKELY TO DIFFERENTIATE BETWEEN AN ISRAELI OR A US ATTACK ON THEIR POSITIONS.

#### SOVIET RESPONSE

IN TALKS WITH IRANIAN PRESIDENT-ELECT RAFSANJANI IN TEHRAN THIS WEEK, SOVIET FOREIGN MINISTER SHEVARDNAOZE EXPRESSED "SERIOUS CONCERN" OVER THE EXECUTION OF HIGGINS AND THE KIDNAPPING OF UBAYD, ACCORDING TO TASS. THE TWO OFFICIALS CONDEMNED ACTS OF TERRORISM AND ANNOUNCED PLANS TO CONTINUE TALKS ON LEBANON AT THE EXPERT LEVEL.

THE SOVIET FOREIGN MINISTRY LATER ISSUED AN OFFICIAL STATEMENT THAT COUNSELED RESTRAINT TO ALL PARTIES INVOLVED IN THE HOSTAGE CRISIS AND WARNED THAT ESCALATED VIOLENCE COULD UNDERMINE A SETTLEMENT IN LEBANON AND BLOCK PROGRESS IN THE ARAB-ISRAELI PEACE PROCESS. TASS HAS REITERATED THOSE THEMES IN A STATEMENT ISSUED TODAY, ADDING A CALL FOR THE IMMEDIATE RELEASE OF ALL HOSTAGES.

COMMENT: MOSCOW IS PROBABLY GENUINELY CONCERNED THAT MILITARY STRIKES IN RETALIATION FOR THE EXECUTION OF HIGGINS COULD DISRUPT ITS EFFORTS TO CONVENE AN INTERNATIONAL CONFERENCE ON THE ARAB-ISRAELI CONFLICT.

THE SOVIETS HOPE TO CONVINCE THE US THAT THEY OPPOSE TERRORISM AND THAT THEIR NEW LINKS TO TEHRAN CAN BE CONSTRUCTIVE. MOSCOW WOULD WELCOME CREDIT FOR HELPING RESOLVE THE HOSTAGE CRISIS, BUT IT WILL BE CAREFUL NOT TO JEOPARDIZE SOVIET TIES TO IRAN OR SYRIA BY PRESSING TOO HARD FOR CONCESSIONS. THE USSR IS ALSO SENSITIVE TO FEARS IN SYRIA AND IRAN OF SUPERPOWER COLLUSION, AND IT WILL TRY TO AVOID APPEARING TO BE AN ADVOCATE OF US VIEWS ON THE HOSTAGES.

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PAGE 003  
TOT: 030608Z AUG 89

2. INTERNATIONAL: CRUDE OIL PRICES SLIDING

WORLD CRUDE OIL PRICES HAVE FALLEN TO THEIR LOWEST LEVELS SINCE FEBRUARY BECAUSE OF SLUGGISH OIL DEMAND AND RISING SUPPLIES. THE AVERAGE PRICE OF CRUDE OIL WORLDWIDE HAS FALLEN \$1.50 IN RECENT WEEKS TO ABOUT \$16.50 PER BARREL. PRELIMINARY DATA SUGGEST THAT THIS YEAR'S OECD OIL DEMAND IS SOMEWHAT SHORT OF EARLIER FORECASTS BECAUSE OF HIGHER OIL PRICES EARLIER IN THE YEAR AND SLOWER-THAN EXPECTED ECONOMIC GROWTH. MEANWHILE, OIL SUPPLIES HAVE RISEN.

BECAUSE OPEC IS NOT LIKELY TO LIMIT PRODUCTION SOON, OIL PRICES ARE LIKELY TO REMAIN UNDER DOWNWARD PRESSURE AT LEAST UNTIL 23 SEPTEMBER WHEN THE CARTEL IS EXPECTED TO RECONSIDER ALLOCATING QUOTAS.

4. IN BRIEF

MIDDLE EAST

X--IRAN'S NEW PRESIDENT, ALI AKBAR RAFSANJANI, TAKES OFFICE TODAY TWO MONTHS EARLY . . . VOTE APPROVING EXPANDED PRESIDENTIAL POWERS VALIDATED YESTERDAY . . . REGIME WANTS TRANSITION TO SEEM SMOOTH, BUT INTENSIFIED FACTIONAL CONFLICT LIKELY.

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PAGE 004  
TOT: 030608Z AUG 89 [REDACTED] b3

SOUTH ASIA

b3 X--AFGHAN INTERIM GOVERNMENT INFORMATION MINISTRY OBJECTED TO  
US-SOVIET TALKS . . . REJECTED ROLE FOR NAJIBULLAH, ZAHIR SHAH,  
X 'OUTSIDE' SETTLEMENT EFFORTS WITHOUT RESISTANCE PARTICIPATION.  
X MINISTRY STATEMENT NOT APPROVED BY INTERIM GOVERNMENT. [REDACTED]

AFRICA

b3 X--PROTESTS YESTERDAY AT WHITES-ONLY HOSPITAL IN SOUTH AFRICA  
DREW MIXED SUPPORT . . . PROTESTS AGAINST SECURITY RESTRICTIONS  
PLANNED FOR WEEKEND . . . RESPONSE RESTRAINED SO FAR BUT VIOLENCE,  
SEPTEMBER ELECTION MIGHT PROVOKE CRACKDOWN. [REDACTED] b3

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